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## **Russian Federation**

## **Livestock and Products Annual**

## **Russia 2017 Livestock and Products Annual**

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**Report Highlights:**

On October 25, 2017, the Government of Russia expanded countersanctions on agricultural trade, banning imports of live swine and meat by-products from the countries that have applied economic sanctions against Russia. Pure-bred breeding animals are exempted. Despite ongoing difficulties in containing the spread of African Swine Fever, strong consumer demand and low feed prices are expected to drive Russian pork production to 3 million MT in 2018. Pork imports are expected to remain stable at 350,000 MT. Structural weaknesses in the Russian beef sector continue to limit growth. Russian beef production is forecast to reach 1.3 million MT in 2018.

*NOTE: USDA unofficial data excludes Crimean production and exports. As of June 2014, the Russian Federal State Statistics Service (Rosstat) began incorporating Crimean production and trade data into its official estimates. Where possible, data is exclusive of information attributable to Crimea.*

## **Executive Summary**

### **Cattle Production**

Cattle inventories are forecast to decline to 18.3 million head in 2018, a decrease of 1.4 percent from the previous year. The Russian cattle industry is slowly shifting toward specialized beef production. This trend is expected to continue in 2018. Dairy herds, which currently account for 43.5 percent of total cattle numbers, will continue to shrink especially in smaller family operations. At the same time, as announced investments in major dairy projects come to fruition, dairy inventories may soon stabilize after almost three decades of decline. Beef cattle numbers at commercial farms are expected increase moderately.

### **Cattle Trade**

Cattle imports are forecast to reach 35,000 head in 2018, down from 30,000 head estimated in 2017. Dairy heifers and purebred breeding beef cattle from the European Union and Belarus will account for the majority of imports. Imports of steers for slaughter are unlikely.

### **Beef Production**

Beef production is forecast to reach 1.3 MMT (CWE) in 2018, a 1.1 percent decline from 2017. Approximately 85 percent of Russian beef production still originates from the slaughter of spent dairy cows, with only 15 percent of the supply coming from specialized beef cattle operations. Despite some anticipated growth in specialized beef operations, this increase will not offset the reduction in meat produced from dairy cattle. Weak consumer demand for expensive high quality beef constrains growth in specialized beef production. Cattle prices also remain high, squeezing producer profit margins. New packing plants in the Central Federal District (CFD) are operating below full capacity, building demand for slaughter cattle. High prices for slaughter animals are stimulating the development of the mid-size beef cow-calf operations, a development that is relatively new to the Russian market. Amendments in state policies at federal and regional levels are anticipated to address the lack of small and medium size cow-calf operations.

### **Beef Consumption**

Following the economic crisis of 2015-2016, the purchasing power of the average Russian consumer is recovering, but demand for beef, especially for more expensive high quality beef, remains weak. Beef remains the most expensive animal protein in the market, and many consumers still consider it as a luxury product.

### **Beef Trade**

Beef imports are forecast to decline to 0.48 MMT (CWE) in 2018. Imports currently account for 27 percent of Russia's total beef supply, a level that is unlikely to change in 2018. Currency exchange rates and price trends of the world market will continue to shape beef prices in Russia. Changes in preferential tariffs are always a possibility, as local producers lobby to improve profitability in the sector. Low priced beef from Latin America is putting some downward pressure on prices. Brazil, Belarus, and Paraguay accounted for more than 90 percent of Russia's beef imports in 2017, and these countries are expected to remain the principal suppliers in 2018.

### **Swine Production**

Swine inventories are forecasts to grow 1.6 percent in 2018 to 22.3 million head. Swine stocks at commercial farms are expected to grow even as animal numbers at smaller commercial and backyard operations continue to decline.

African Swine Fever (ASF) continues to spread across Russia, affecting even the best-protected commercial herds. The negative impact of ASF is expected to continue in 2018. With the third consecutive year of the grain crop exceeding 100 MMT, the ample availability of grains should contain feed prices, lowering overall production costs.

### **Pork Production**

Pork production is forecast to grow to 3 MMT (CWE) in 2018, a 1.4 percent increase from the 2.96 MMT (CWE) estimated in 2017. Producer prices for pork half-carasses have risen due to increased demand for slaughter pigs in the CFD. Consumption of pork has recovered after the crisis of 2015-2016 and the overall market outlook is favorable for pork. Antiquated independent farms and processing plants continue to struggle, but vertically integrated industry leaders are reporting improved margins from pork sales. As Russian production is beginning to exceed domestic demand, producers are looking for new markets. Competition among top Russian producers and importers is intensifying. This trend is expected to continue in 2018.

### **Pork Trade**

Pork imports are forecast to reach 350,000 MT (CWE) in 2018. A stronger ruble, growing demand for pork, and zero in-quota tariffs have been encouraging imports in 2017. Shipments from non-sanctioned suppliers are growing after three consecutive years of decline. African Swine Fever, endemic in Russia, constrains the potential of significant export development. Russian pork exports are forecast to remain at 25,000 MT (CWE) in 2018, unchanged from 2017.

### **Pork Consumption**

In 2018, Russian pork consumption is forecast to increase to 3.315 MMT (CWE). Increased domestic pork production in 2016 lowered pork prices, triggering an increase in consumer demand for pork products. Pork sales have continued to grow in 2017, exceeding pre-crisis levels. Further growth in domestic consumption will depend on the recovery of consumer purchasing power and relative prices.

### **Amendments to State Policies Relevant to Livestock and Products**

## **Trade restrictions**

On October 25, 2017, the Government of Russia expanded economic sanctions on agricultural trade, banning imports of live swine and meat by-products from the countries that have applied sanctions against Russia. Similar to the decree issued on June 30, 2017, Russian counter-sanctions will continue to influence trade in livestock and livestock products through December 31, 2018. Trade restrictions do not affect imports of breeding animals or genetic material. President Putin signed decree No. 293 extending Russia's ban on the import of agricultural products from the countries that applied economic sanctions against Russia. (Please refer to GAIN reports [RS1741](#) and RS1754 for more detailed information).

## **Obligatory Electronic Veterinary Certification**

An important change for the market of products of animal origin is the upcoming obligatory transition to an electronic veterinary certification system for the products listed in the [Order # 648](#) of the Ministry of Agriculture on January 1, 2018. Veterinary supporting documents will be issued for each shipment free of charge and the information on each lot of broiler meat will be registered and stored in the state information system "[Mercury](#)", which is operated by the Russian Veterinary Phytosanitary Surveillance Service (VPSS). Detailed up-to date information on the electronic veterinary certification requirements is available at the VPSS website: <http://www.fsvps.ru/fsvps/mercury>. In particular, the change will impact prepared or preserved meat products under HS codes 160250, 160241, 160442, 160249 because veterinary certification is a new requirement for these processed meat products.

## **Amendments to State Agricultural Program and Legislation**

The Government of Russia has introduced significant amendments to the State Program for the Development of Agriculture and Regulation of Agricultural Commodities Markets (2013-2020), in which the GOR defined new priorities for agricultural development. For detailed information, please refer to [RS1736 Agricultural State Program 2013-2020 Amended in 2017](#). The sub-programs in the previous framework were designed to encourage investment in additional production capacity and increase crops and output of agricultural products. The Russian Ministry of Agriculture has played the key role in the distribution of the funds among different sectors in the past. The new edition of the program is designed to support the agro-industrial complex financial system and give provinces more flexibility in using federal funds according to the needs of the particular region. An important addition to the Program is a new subprogram to support development of Russian agricultural exports. The changes could have a negative impact on mid-size and small farms and meat plants, in particular in the regions where cattle and swine farming is not a priority for the regional authorities. Amendments to the program are limiting access to preferential credit for smaller companies with less vertical integration. The new state agricultural policy will likely accelerate consolidation of meat production with the largest companies and, in the long term, will result in the concentration of beef and pork industries in a few geographic clusters.

## **Cattle**

*Table 1. Russia: Cattle Numbers, 1,000 Head*

Animal Numbers, Cattle	2016		2017		2018	
Market Begin Year	Jan 2016		Jan 2017		Jan 2018	
Russia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Cattle Beg. Stks	18,879	18,879	18,568	18,638	0	18,385
Dairy Cows Beg. Stocks	7,800	7,800	7,560	7,542	0	7,380
Beef Cows Beg. Stocks	548	548	626	660	0	700
Production (Calf Crop)	6,550	6,600	6,410	6,480	0	6,400
Total Imports	63	63	50	40	0	35
Total Supply	25,492	25,542	25,028	25,158	0	24,820
Total Exports	11	11	10	8	0	10
Cow Slaughter	0	0	0	0	0	0
Calf Slaughter	0	0	0	0	0	0
Other Slaughter	6,548	6,548	6,420	6,435	0	6,350
Total Slaughter	6,548	6,548	6,420	6,435	0	6,350
Loss	365	345	328	330	0	320
Ending Inventories	18,568	18,638	18,270	18,385	0	18,140
Total Distribution	25,492	25,542	25,028	25,158	0	24,820

(1000 HEAD)

NOTE: Not Official USDA data;

Official USDA data is available at <http://apps.fas.usda.gov/psdonline/>

## **Beef**

Table 2. Russia: Beef and Veal Production, Supply & Distribution (1,000 MT CWE<sup>1</sup>)

Meat, Beef and Veal	2016	2017	2018
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<sup>1</sup> CWE – Carcass Weight Equivalent

Market Begin Year	Jan 2016		Jan 2017		Jan 2018	
Russia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	6,48	6,548	6,420	6,435	0	6,350
Beginning Stocks	0	0	0	0	0	0
Production	1,335	1,335	1,310	1,315	0	1,300
Total Imports	518	521	485	500	0	480
Total Supply	1,853	1,856	1,795	1,815	0	1,780
Total Exports	10	11	10	10	0	10
Human Dom. Consumption	1,843	1,845	1,785	1,805	0	1,770
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	1,843	1,845	1,785	1,805	0	1,770
Ending Stocks	0	0	0	0	0	0
Total Distribution	1,853	1,856	1,795	1,815	0	1,780

(1000 HEAD) ,(1000 MT CWE)

NOTE: Not Official USDA data;

Official USDA data is available at <http://apps.fas.usda.gov/psdonline/>

## Cattle Production

Cattle inventories are forecast to decline to 18,140,000 head in 2018, a 1.4 percent decrease from the 18,385,000 head estimated at the end of 2017. This follows a similar 1.4 percent annual decrease during the previous year. Beef cow numbers in commercial operations will increase slightly in 2018, while dairy cow herds, which currently account for approximately 43.5 percent of Russia's total herd<sup>2</sup>, will continue to shrink, especially in smaller backyard operations. If the major investment projects recently launched or announced in the dairy sector are successfully realized, dairy inventories at commercial farms may stabilize after almost three decades of decline. According to Rosstat, total cattle inventories as of July, 1<sup>st</sup> 2017 were 19,594,000 head, that is 1.07 percent less than in July 2016. Dairy and beef cows herd was 8,297,000 head, 0.89 percent decline year-on-year.

There are no readily available data for live cattle sales and no clear a national average prices for slaughter or breeding cattle. Antiquated meat processing plants inherited from Soviet times are unable to offer good prices for slaughter cattle, and dairy farms generally do not get much money selling spent cows and calves to these meat processors. Construction of several major modern beef packing plants has been an important step in the development of the live cattle market, as these plants are creating demand for a steady supply of quality cattle for slaughter. According to industry contacts, prices for live

<sup>2</sup> Source: Rosstat, Cattle herd at all types of farms as of July 1, 2017. Total cattle and beef cows inventories in January, 2017 were revised based on the final 2016 Rosstat year-end data and information on specialized beef cattle numbers from Ministry of Agriculture of the Russian Federation

[http://www.gks.ru/wps/wcm/connect/rosstat\\_main/rosstat/ru/statistics/enterprise/economy/](http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/enterprise/economy/)

cattle have risen significantly in Central Russia since “Miratorg” and “Zarechnoye” opened their large processing plants in Bryansk and Voronezh regions.

According to industry sources<sup>3</sup>, the Miratorg meat processing plant in Bryansk has an annual capacity of 500,000 head, but currently processes only 150,000 animals due to limited inventory. The same industry sources believe that it could take four or five years to reach full capacity. “Zarechnoye”, the second largest beef producer in Russia with a herd of 60,000 cattle and a processing plant with an annual capacity of 40,000 MT, is currently selling beef products under the brands of “PrimeBeef” and “Zarechnoye”. “PrimeBeef” is a premium brand of corn-fed marbled meat from Black Angus steers. “Zarechnoye” is a brand with beef products from various breeds finished at company’s feedlot. Russian beef sector leaders, “Miratorg” and “Zarechnoye”, have started purchasing dairy cattle in addition to Black Angus steers in order to better utilize capacity. Another significant player in the live cattle market in the Volga and South Ural areas is “Orenbeef”<sup>4</sup> – a beef processing plant launched by Cremonini Group in 2014, with an annual capacity of 130,000 head per year. A new meat packing facility that was recently opened by “Auchan” in Tambov region will create additional demand for slaughter cattle in the European Part of Russia.<sup>5</sup>

According to industry contacts, prices for live cattle, in particular for 7-8 month-old steers of 200-240 kg live weight, generally increased in 2016 and have remained high in 2017, because the capacities of feedlots and processing plants have grown faster than cattle inventories. In the long term, this may stimulate the development of the mid-size beef cow-calf farms, which have never existed in Russia before. However, weak consumer demand for beef in the current market constrains growth at retail, and as a result discourages imports of additional live cattle for slaughter. The prices for cattle are anticipated to remain high while the new meat packing plants operate below their planned capacity.

The low number of small and medium-sized beef farms resulted in a lack of demand for breeding cattle and financial difficulties for suppliers like “Stevenson-Sputnik”, one of the first Aberdeen Angus cattle projects in Russia. Despite strong support for the cattle breeding project by the federal and regional authorities, Russian breeders have generally struggled with low demand for domestic breeding cattle. Several breeders reportedly<sup>6</sup> had to slaughter valuable heifers for beef to cover operational expenses. In September 2017, the second largest beef producer in Russia, “Group of Companies Zarechnoye”<sup>7</sup>, purchased all the assets of “Stevenson-Sputnik” in Voronezh Region including 12,800 head of breeding cattle and 22 thousand hectares of pastureland. According to “Zarechnoye’s” media release, from the total 1.8 billion-ruble deal (approx. 31.5 million US dollars), 1.5 billion rubles (26.3 million US dollars) was spent on refinancing Stevenson-Sputnik’s debt to Sberbank. The acquisition was financed by Rosselkhozbank, and is supported by funds from the regional budget. Considering 634.5 million rubles

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<sup>3</sup> Interview with Victor Linnik dated 08.09.2017: <https://snob.ru/selected/entry/127799>

<sup>4</sup> <http://www.agroinvestor.ru/companies/a-z/orenbev/#full>

<sup>5</sup> “Auchan Retail Russia”, a subsidiary of French Auchan Retail, is the nation’s third largest food retail chain. In five years company plans to pack 100 percent of meat it sales at the company’s packing plant in Tambov region. The planned capacity is 1.4 MT per week. Source: corporate media release <https://www.auchan.ru/ru/press/762>

<sup>6</sup> “Merges Worth Billion, Article is published in Agro Investor Magazine #7 (9914), July 2017”, <http://www.agroinvestor.ru/investments/article/28113-sliyaniya-na-milliard/>; “Zarechnoye Group plans purchasing “Stevenson-Sputnik” ; [http://facto.ru/glavnaya\\_lenta\\_novostej/2017/06/voronezhskaya\\_gruppa\\_zarechnoe\\_gotovitsya\\_k\\_pokupke\\_stivenson\\_sputnik/](http://facto.ru/glavnaya_lenta_novostej/2017/06/voronezhskaya_gruppa_zarechnoe_gotovitsya_k_pokupke_stivenson_sputnik/)

<sup>7</sup> Voronezh beef producer “Zarechnoye” slightly increased sales and reduced losses in 2016 [https://abireg.ru/n\\_62219.html](https://abireg.ru/n_62219.html)

of the net loss that “Zarechnoye” reported in 2016, the acquisition of the debt-generating the “Stevenson-Sputnik” business looks like a government subsidized attempt to save a quality breeding herd rather than a beef-producer’s decision driven by pure economics.

Lack of cow-calf operations is a constraint on the more rapid development of the Russian beef industry. Amendments in state policies at federal and regional levels are expected to address this problem to stimulate the development of small and medium sized cow-calf operations. For example, the Program of Accelerated Development of Beef Cattle Farming was launched in Tomsk oblast as a pilot project coordinated at the level of the Russian Ministry of Agriculture. Five mid-sized beef farms will start operations in Tomsk oblast in 2017<sup>8</sup>, 30 new operations are expected to begin in 2018. According to the Russian Government’s plan, cow inventories in Tomsk region should grow to 30,000 head in the next three years.

The Ministry of Agriculture in partnership with “Rosagroleasing” drafted amendments to the Federal Law “FZ-164 On Financial Rent (Leasing)” to add non-purebred commercial cattle of the specialized beef breeds to the list of the cattle available for leasing. Leasing of cattle is legal in Russia now, but the amendments will allow use state and regional funds to subsidize the leasing contracts and reduce the capital expenditures for medium and small startup beef farms. The Ministry of Agriculture estimates that subsidized leasing option will result in a 20 percent reduction in capital expenses for purchasing cows for commercial beef herds. Authorities hope that the lower initial capital expenditures will encourage the development of the industry. The draft amendments passed the second hearing at the State Duma on October 1<sup>st</sup>, 2017, and will likely be adopted before the end of the 2017.

If implemented successfully, the above mentioned initiatives will not necessarily deliver significant growth of cattle inventories and beef production in 2018, but according to industry experts, any reduction in initial capital requirements for the mid-size beef farms should have a positive effect on the sector in the long-term.

According to industry experts the epizootic outlook remains challenging in terms of the following economically significant cattle diseases<sup>9</sup>: Lumpy Skin Disease (LSD); Bovine Leucosis Virus (BLV), and Bovine Brucellosis.

Lumpy Skin Disease was found in Dagestan in 2015, most likely coming from live cattle imported from Azerbaijan. According to multiple reports from veterinary officials at VPSS and the Ministry of Agriculture, the disease is spreading due to poor control over cattle movement in southwest of Russia and North Caucasus and is a serious threat for the industry. In 2016, Russia reported 313 LSD outbreaks and 17,843 head infected and 176,856 head susceptible across 16 regions.

Bovine Leucosis<sup>10</sup> has been endemic in Russia since the mid-20<sup>th</sup> century. According to results of tests conducted by the Federal Center for Animal Health (FGBI “ARRIAH”) in 2015, more than 30 percent

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<sup>8</sup> Sources: National Union Of Beef Producers: “Scientific Agricultural council approved the Accelerated Development of Beef Farming in Tomsk Region” <http://www.nspg.ru>; Investment projects in Tomsk Region in 2017: <http://dep.agro.tomsk.ru/region/investitsionnye-proekty-/investitsionnye-proekty-2017.php>

<sup>9</sup> Source in Russian: “Agroinvestor” Magazine #2 (9009) February, 2017 [Article “Livestock farming under threat”](#)

<sup>10</sup> Per Technical Regulations of the Eurasian Economic Union (TRTS 021/2011) products of animal origin must originate from the farms with “no leucosis cases registered at the farm during the last 12 months”; and products obtained from BLV



of commercial cattle in Russia are BLV positive. The Technical Regulations of the Eurasian Economic Union on Food Safety (TRTS 021/2011) require that products of animal origin must originate from farms with “no leucosis cases registered at the farm during the last 12 months”; and products obtained from BLV seropositive cattle should not enter the market. Official VPSS instructions on BLV prevention and eradication require the removal and culling of BLV-positive animals, which became the subject of on-going disputes between farmers, processors and veterinary authorities at different levels. The Ministry of Agriculture initiated amendments to the union’s technical regulations to remove the excessive BLV requirements, but faced a confrontation at the level of the Eurasian Economic Commission from Belarus. According to industry contacts, the uncertainty related to implementation of the EAEU regulations related to BLV became a constraint on domestic sales of breeding cattle and limited imports from multiple countries. VPSS reported 135 new infected objects, with 31,000 head infected in 2016, and 148 newly infected objects in January-June 2017. Another endemic problem is Bovine Brucellosis with 576 confirmed outbreaks, and approximately 9000 head lost in 2016. In January-June 2017 VPSS reported 404 outbreaks of the disease.

No cases of Anthrax<sup>11</sup> and Foot and Mouth disease have been registered in 2017, but the risk of infection remains high due to the unfavorable epizootic situation in neighboring geographic areas. For the most recent up-date on the disease notifications and outbreak reports please refer to the official web site of the Russian Federal Service for Veterinary and Phytosanitary Surveillance ([VPSS](#)) and [OIE](#).

## **Cattle Trade**

Cattle imports are forecast to reach 35,000 head in 2018, a decline from 30,000 head estimated in 2017. Dairy heifers and purebred breeding beef cattle from the European Union and Belarus will likely account for the majority of imports. Imports of steers for slaughter are unlikely.

In January-July 2017, Russia imported 31,093 head of cattle, with a total value of 62.2 million US dollars. On average, Russian importers paid 2,000 US dollars per head. Exporters from the European Union accounted for 94 percent of this trade in absolute numbers and 98 percent in dollar terms. Russian imports from the EU grew 172 percent in absolute numbers, and 143 percent in value. The Netherlands supplied 14,362 head of breeding dairy heifers, Germany 8,692 head, Denmark 3,233 head, and Hungary 2,002 head. Russia also imported cattle from Finland, Estonia, Austria, Ireland, Slovakia, and Belarus. All the above listed exporters, except Belarus, increased shipments. Imports from Belarus dropped to 1,839 head, a 55 percent reduction compared to the same months in 2016. Australia, which was the major exporter of live cattle to Russia in 2015 and 2016, did not supply any in January-July 2017. The 2017 import estimate has been decreased because the industry leader, Miratorg, has stopped bringing in slaughter cattle from Australia, as the company started a veal project and is building a feedlot for dairy calves in Kursk oblast.

Exports of live cattle will remain insignificant, as cattle are in demand in the domestic market. In addition, the outbreak of Lumpy Skin Disease limits live cattle exports to traditional markets.

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seropositive cattle should not enter the market. However, according to “Federal center for Animal Health (FGBI “ARRIAH”) more than 30 percent of commercial cattle in Russia is BLV positive.

<sup>11</sup> Please refer to FAO report “Anthrax outbreaks a warning for improved prevention, control and heightened awareness.” For detailed information on Anthrax outbreak in reindeer population in Russia’s Yamal-Nenets district in 2016

Kazakhstan and Belarus issued restrictions on supplies of cattle from affected regions<sup>12</sup>, and as a result cattle exports from Russia to Kazakhstan and Belarus decreased 94 and 100 percent correspondently. Azerbaijan, a traditional buyer of slaughter cattle from the southern regions of Russia, increased cattle shipments to 3,490 head from 1,098 in January-July 2016.

Russian countersanctions do not ban imports of U.S. live cattle or genetic material. Moreover, in June 2016, President Putin signed the Amendments to the Tax Code to exempt from VAT payments trade operations with purebred breeding agricultural animals. The Amendments reduce the VAT rate from 10 to 0 percent until December 31, 2020. The zero VAT rate is applied to trade operations with domestic and imported purebred breeding cattle, semen and embryos of purebred breeding bulls.<sup>13</sup> In the case of imports, the exemption shall be granted upon the submission of the documents to Customs in accordance with the Federal law 123 FZ – 08.03.1995 On Livestock Breeding.

***Chart 1. Russian Imports of Live Cattle, Calendar Year: 2012-2016, & Year To Date: 07/2016 & 07/2017 Quantity (1,000 Head)***

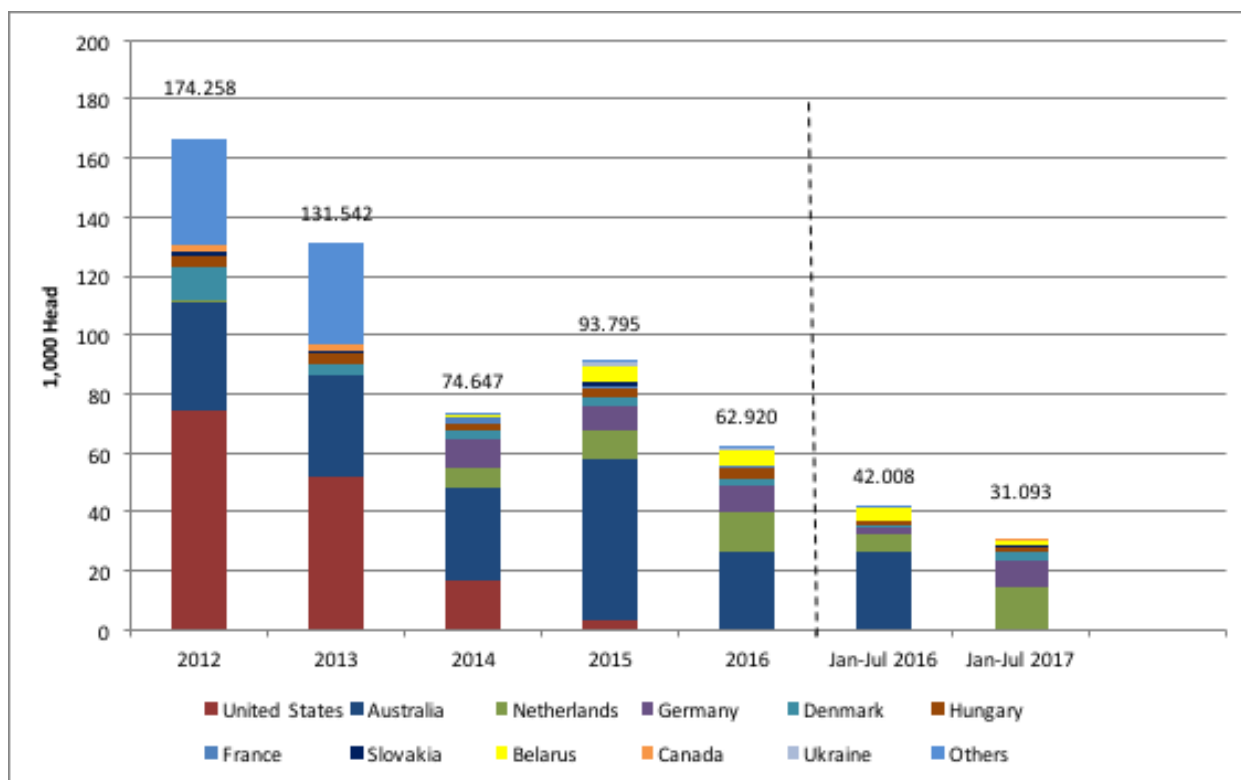
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<sup>12</sup> For additional information please see VPSS order #FS-KS-7/12666

<http://www.fsvps.ru/fsvps/importExport/kazakhstan/export.html> for Kazakstan and

<http://www.dvnp.gov.by/normativnye-dokumenty/veterinarnaya-sluzhba-respubliki-belarus/ukazaniya/> for Belarus.

<sup>13</sup> The VAT exemption is also applicable to purebred breeding animals and genetic material of other agricultural animals including poultry (hatching eggs), swine, sheep, goats, and horses.



Source: Federal Customs Service of Russia; Belstat

## Beef Production

Beef production is forecast at 1.3 MMT (CWE) in 2018, a 1.1 percent decline from 2017. Weak consumer demand and relatively high prices are major factors contributing to the anticipated production decline. While the purchasing power of average Russian consumers is recovering from the 2015-2016 crisis, beef remains the most expensive meat in the market.

According to the National Union of Beef Producers, approximately 85 percent of beef in Russia still originates from slaughter of spent dairy cows, and only 15 percent from specialized beef cattle. However, the Russian beef industry is currently in a period of transition from dual-purpose cattle farms to specialized beef and milk farms, and as such it is a period with some contradictions. The industry is slowly shifting to dedicated beef production. While dairy herds, especially in smaller backyard operations are declining, beef cattle herds of leading producers are generally growing, albeit slowly. However, despite growth in specialized beef production, this increase will not offset the reduction in beef production from dairy cattle.

Dairy cattle still account for the lion's share of the nation's herd. Milking cow inventories have declined ever since the collapse of the Soviet planned economy and will continue to decline in 2018. However, as private investors are beginning to show greater interest in commercial dairy operations, dairy cow inventories are expected to soon stabilize. According to Russia's Ministry of Agriculture, 117 new dairy

farms were opened, and 119 old farms modernized in 2016<sup>14</sup>. Several major investment projects in the dairy sector have started or been announced in 2017. One very notable example is the Vietnamese company TH True Milk that is investing 1 billion US dollars to set up mega milk farms in the Moscow and Kaluga regions for 80,000 head total capacity.<sup>15</sup> ABH “Miratorg” has also announced plans to invest up to 400 million US dollars in milk production in the Central Federal District<sup>16</sup>. The “Sfera” Group of Companies has plans to invest 5.5 billion rubles in 12,000 head farm in the Republic of Mordovia. Russia’s Agricultural giant “Rusagro” is now working on another billion dollar investment in milk production for the Russian Far East<sup>17</sup>. For more information on Russia’s dairy market please also refer to [RS1731 Dairy and Products Semi-annual](#).

Unlike dairy farming, specialized beef cattle and feedlot operations are relatively new to Russia. The beef cattle numbers have been growing over the last decade after a few major producers invested in beef projects and actively enlarged their beef cattle herds. The earliest commercial beef cattle projects started in 2005 by “Albeef” in Lipetsk and in 2008 by “Zarechnoye” in Kaluga. The largest Russian beef (and pork) producer, ABH “Miratorg”, which produced 62,140 MT (live weight) of beef in 2016, started to develop its beef production cluster in 2011. The company currently owns 63 cow-calf farms in six regions of the Central Federal district, two feedlots in Bryansk and Orel, and a beef processing plant. ABH “Miratorg” plans to increase beef production by 20 percent in 2017 to 75,000 MT (live weight).

The growth of beef production from specialized beef cattle is expected to slow in 2018 due to low margins from beef sales in 2015-2017. Smaller farms are experiencing difficulties in maintaining profitability from beef sales, especially as larger companies are gradually increasing capacity and developing a broader presence in the market. Larger producers generally have much lower production costs, better access to long-term credit for development, and privileged distribution channels. Despite these competitive advantages, most beef operators are struggling financially.

Moreover, with growth in domestic production of premium beef and the availability of lower-priced imports from Latin America, there is downward pressure on prices, reportedly<sup>18</sup> constraining the profitability of local producers. Russian industry leaders invested in the promotion of marbled beef, and there are indeed some positive results, but the supply of marbled beef has grown much faster than consumer demand.

## Beef Trade

Beef imports are forecast to decline to 0.48 MMT (CWE) in 2018, down from the expected level of 0.50 MMT (CWE) in 2017. Imported beef currently accounts for 27 percent of Russia’s beef supply, and this ratio is unlikely to change dramatically in 2018. Currency rates and price trends on the world market continue to influence beef prices in Russia. Key factors leading to the decline in imports are: Russia’s

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<sup>14</sup> Source: National Agricultural Program Implementation Report of the Russia’s Ministry of Agriculture <http://mcx.ru/activity/state-support/programs/program-2013-2020/>

<sup>15</sup> <http://www.agroinvestor.ru/investments/news/28320-tayskaya-cp-group-otkazalas-stroit-megafermu/>

<sup>16</sup> (<http://www.rbc.ru/business/05/06/2017/59358e2a9a7947fa6b00a94a>

<sup>17</sup> (<https://www.kommersant.ru/doc/3384395> )

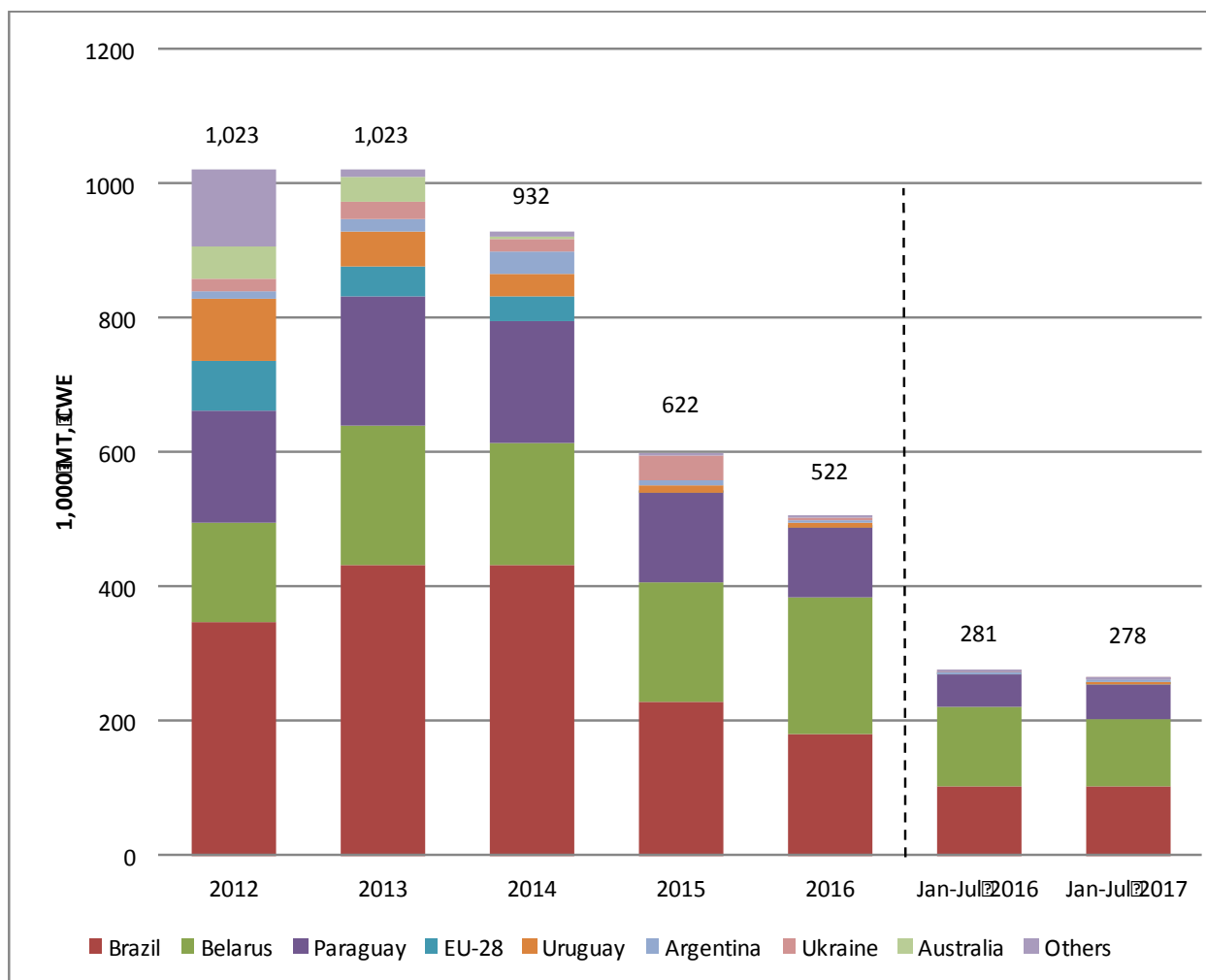
<sup>18</sup> Article in Russian: “No Discounts on Meat. Will the steak prices change in restaurants?” Published on Aug 01, 2017 <https://www.kommersant.ru/doc/3372681>

counter sanctions and an initiative of the Eurasian Economic Commission to change the preferential tariffs for beef imports from developing countries. The relevant amendments to the EAEU tariff schedule have been initiated by the Russian Ministry of Agriculture, supported by the Russian Ministry of Economic Development, and are expected to pass through the Eurasian Economic Union Legislative process quickly.

Brazil, Belarus, and Paraguay accounted for more than 90 percent of Russia's beef imports in 2016, and total imports for January to July 2017 were 277,843 MT, almost flat compared to the same period in the previous year; the value of the imports increased 12 percent to 663.3 million US dollars. Brazil and Paraguay will likely continue in quota beef supplies, as well as Belarus, which will continue beef exports benefiting from zero tariffs within the EAEU. However, the Russian food safety surveillance authorities, Rosselkhoz nadzor (VPSS) and Rospotrebnadzor, continue to play a determining role in market access. VPSS inspectors have intensified border control to ensure imported goods are fully compliant with EAEU food safety requirements. On November 20, 2017, the Russian Food Safety Authority, Rosselkhoz nadzor, announced temporary restrictions on imports of pork and beef products from Brazil, due to findings of ractopamine. The restrictions will be in force as of December 1, 2017. Russian law prohibits the use of ractopamine and other muscle growth stimulators.

Russia's obligatory Electronic Veterinary Certification, which will enter into effect on January 1<sup>st</sup>, 2018, may create additional constraints for imports. If preferential tariff rates for beef imports from Brazil and Paraguay are removed, the tariffs will increase from 37.5 percent to 50 percent for out of quota imports. As a result, out of quota imports from these countries are expected to stop; the in-quota tariffs will rise from 11.25 to 15 percent. According to industry sources, local producers could use this opportunity to increase their prices. As of September 30, 2017 Russia imported 163,000 MT (product weight) of frozen beef from non-EAEU countries. In-quota imports were 145,600 MT (product weight). To date, 27.5 percent of the TRQ for frozen beef has been used, which is on par with TRQ utilization in 2016.

***Chart 2. Russian Imports of Beef, CWE, Annual Series: 2012 - 2016, & Year-To-Date: 07/2016 & 07/2017 Quantity (MT); Major Suppliers***



Source: Federal Customs Service of Russia

**Table 3. Custom tariffs on imported beef in Russia in 2017**

Import tariff on chilled or frozen beef out of quota (0201,0202)	Import tariff on chilled or frozen beef <b>in quota</b> <b>Quota</b> 0201 – 40,000 MT 0202 - 530,000 MT	Import tariff on chilled or frozen beef out of quota (0201,0202) for developing countries	Import tariff on chilled or frozen beef <b>in quota</b> for developing countries <b>Quota</b> 0201 – 40,000 MT 0202 - 530,000 MT
50%, but not less than 1 Euro per Kg.	15 %	37.5%, but not less than 0.75 Euro per kg.	11.25%

Source: Eurasian Economic Commission; The Unified Customs Tariff

## Beef Consumption

Beef consumption will decline in 2017 and 2018 largely due to higher relative prices. Although recovering, the purchasing power of the average Russian consumer remains weak, and beef remains the most expensive meat in the market. However, the decline in beef consumption could be mitigated by ongoing efforts to promote high end beef (i.e. from specialized beef cattle rather than from spent dairy cattle), by the “burger boom” in major Russian cities, by the growth of modern retail channels, and by reduced consumption of fish. Beef and fish are generally considered premium products, and within this category, beef is relatively more attractive when considering price and quality.

Signature hamburger restaurants are popular eating destinations in Moscow since the launch of projects such as “Ferma Burger”, “Burger Heroes”, “Farsh”, “BB Burgers”, and “The Burger Brothers”, to name the few. Now, the “burger boom” is expanding into other regions. For example, “Farsh,” a burger restaurant and meat “boutique” has a joint project with Miratorg and Mr. Arkady Novikov, a famous Moscow restaurateur. The project which started in Moscow in 2015 is operating eight restaurants. The Farsh group currently plans to open restaurants in other cities with populations of over one million. The restaurants will be located in “Mega” shopping malls in Krasnodar, Samara, Yekaterinburg, and Novosibirsk”<sup>19</sup>

## **Swine and Pork**

***Table 4. Russia: Swine Numbers, 1,000 Head***

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<sup>19</sup> [http://www.arendator.ru/articles/155258-burgernye\\_peremalyvayut\\_rynok\\_obcshepita/](http://www.arendator.ru/articles/155258-burgernye_peremalyvayut_rynok_obcshepita/)

<b>Animal Numbers, Swine</b>	<b>2016</b>		<b>2017</b>		<b>2018</b>	
<b>Market Begin Year</b>	<b>Jan 2016</b>		<b>Jan 2017</b>		<b>Jan 2018</b>	
<b>Russia</b>	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>
<b>Total Beginning Stocks</b>	21,345	21,345	21,885	21,888	0	22,355
<b>Sow Beginning Stocks</b>	2,480	2,480	2,530	2,560	0	2,590
<b>Production (Pig Crop)</b>	41,474	41,477	42,970	42,800	0	43,300
<b>Total Imports</b>	8	8	8	7	0	5
<b>Total Supply</b>	62,827	62,830	64,863	64,695	0	65,660
<b>Total Exports</b>	7	7	8	5	0	5
<b>Sow Slaughter</b>	0	0	0	0	0	0
<b>Other Slaughter</b>	38,550	38,550	40,100	39,900	0	40,470
<b>Total Slaughter</b>	38,550	38,550	40,100	39,900	0	40,470
<b>Loss</b>	2,385	2,385	2,405	2,435	0	2,475
<b>Ending Inventories</b>	21,885	21,888	22,350	22,355	0	22,710
<b>Total Distribution</b>	62,827	62,830	64,863	64,695	0	65,660
(1000 HEAD)						

NOTE: Not Official USDA data; Official USDA data is available at <http://apps.fas.usda.gov/psdonline/>

**Table 5. Russia: Pork Production, Supply & Distribution (1,000 MT CWE)**



Meat, Swine Market Begin Year	2016		2017		2018	
	Jan 2016		Jan 2017		Jan 2018	
Russia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	38,550	38,550	40,100	39,900	0	40,470
Beginning Stocks	0	0	0	0	0	0
Production	2,870	2,870	3,000	2,960	0	3,000
Total Imports	347	347	300	350	0	350
Total Supply	3,217	3,217	3,300	3,305	0	3,350
Total Exports	25	25	25	25	0	25
Human Dom. Consumption	3,192	3,192	3,275	3,285	0	3,315
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	3,192	3,192	3,275	3,285	0	3,315
Ending Stocks	0	0	0	0	0	0
Total Distribution	3,217	3,217	3,300	3,305	0	3,350

(1000 HEAD) ,(1000 MT CWE)

*NOTE: Not Official USDA data;*

*Official USDA data is available at <http://apps.fas.usda.gov/psdonline/>*

## Swine Production

Swine inventories are forecast to grow 1.6 percent in 2018 to 22.7 million head, building on the 2.1 percent growth expected in 2017. Two offsetting trends within the recent decade will persist next year: 1) swine stocks at commercial farms will grow as industry leaders increase market share with wider product assortment, while 2) animal numbers at smaller commercial and noncommercial backyards will decline. Non-industrialized smaller farms are shrinking due to cost disadvantages compared to large-scale producers, continued demographic decline in rural areas<sup>20</sup>, and due to outbreaks of African Swine Fever (ASF) and disease control measures.

The Central Federal District (CFD, which includes Moscow and environs) is becoming the most important pork producing cluster in the country. Among the advantages producers in the region enjoy are: availability of feeds, fertile soils, good infrastructure, proximity to the largest consumer markets, availability of qualified workers, and better access to credit as most of the CFD regional governments are focused on the meat industry. Several major “integrators”<sup>21</sup> in the CFD have added meat-packing

<sup>20</sup> Rosstat, Official Statistics, Population, Demography, “[Permanent Population Estimate as of January 1, 2017](#)” ; rural population decreased by 57,000 people in 2016; while urban population grew by 187,465.

<sup>21</sup> Leading agricultural companies, called in Russia “integrators” because they have implemented vertically integrated business models. These companies often control the whole supply chain from growing crops through processing, and in some cases retail stores. “Integrators” first appeared in Russia in the segments that promised faster return on investments: such as poultry, pork, sugar, oil production.

plants to their business operations. That, along with ongoing limitations to movement of live swine enacted to control the spread of ASF, limited the supply of animals for slaughter at independent plants.

Currently, 55 percent of all Russian swine is raised on farms in the CFD, so prices in the CFD tend to influence the whole country. Aggregated annual capacity of slaughter plants in the CFD is currently estimated to exceed the supply of live animals by approximately three million head. High demand from independent pork processing plants has kept upward pressure on CFD live swine prices throughout the first half of 2017. Higher prices have allowed farms to sell pigs at lower weights. Industry experts generally believe that swine prices will likely stabilize

### **African Swine Fever**

ASF continues to spread in the country in 2017, and there is a very high probability that it will continue to impact the swine industry in 2018. Since the beginning of the year, 121 ASF case have been confirmed in domestic pigs, and 21 in wild boars. The number is smaller compared to the record 222 ASF cases in domestic pigs and 76 in wild boars detected in 2016, but the situation deteriorated on September 5<sup>th</sup>, 2017, when the ASF virus was detected in Belgorod region at one of 24 farms of the second largest Russia's pork producer, "Rusagro" <sup>22</sup>.

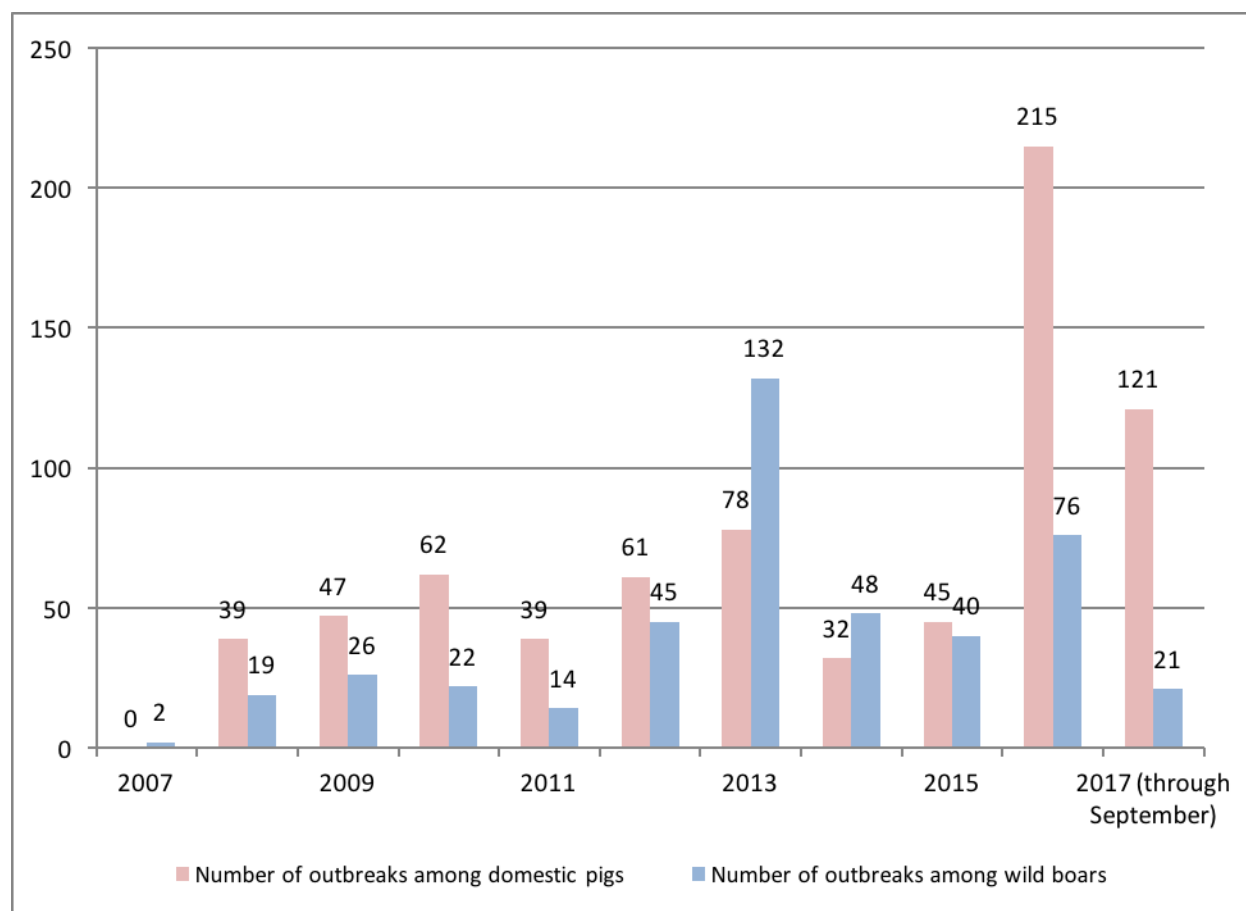
Belgorod is the key pork producing region, accounting for 18 percent of the nation's total pork production in 2016. Until the recent outbreak at the "Rusagro" facility, Belgorod companies in cooperation with regional government had been successfully implementing a regional ASF prevention program. All backyard pork operations stopped in the region after the single ASF case at a backyard farm in 2013, but even the strictest safety measures did not prevent the introduction of the virus to one of the best-protected commercial herds.

Not only did ASF continue hitting farms in the Central and Volga Federal Districts in 2017, but despite of all the preventive activities, the virus has been introduced to Omsk and Irkutsk, the regions east of the Urals. This threatens further spread of the disease in Siberia and the Far East and could threaten the ambitious pork export projects in Primorsky Krai.

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<sup>22</sup> Source: [www.rusagroup.ru/en/investors/news-events/press-releases/single-view/article/725](http://www.rusagroup.ru/en/investors/news-events/press-releases/single-view/article/725) "...on September 5, 2017 an outbreak of African Sine Fever (ASF) has been detected at 1 of 24 production sites in Belgorod region."

**Chart 3. Number of African Swine Fever Outbreaks in the Russian Federation in January, 2007 - September 22, 2017**

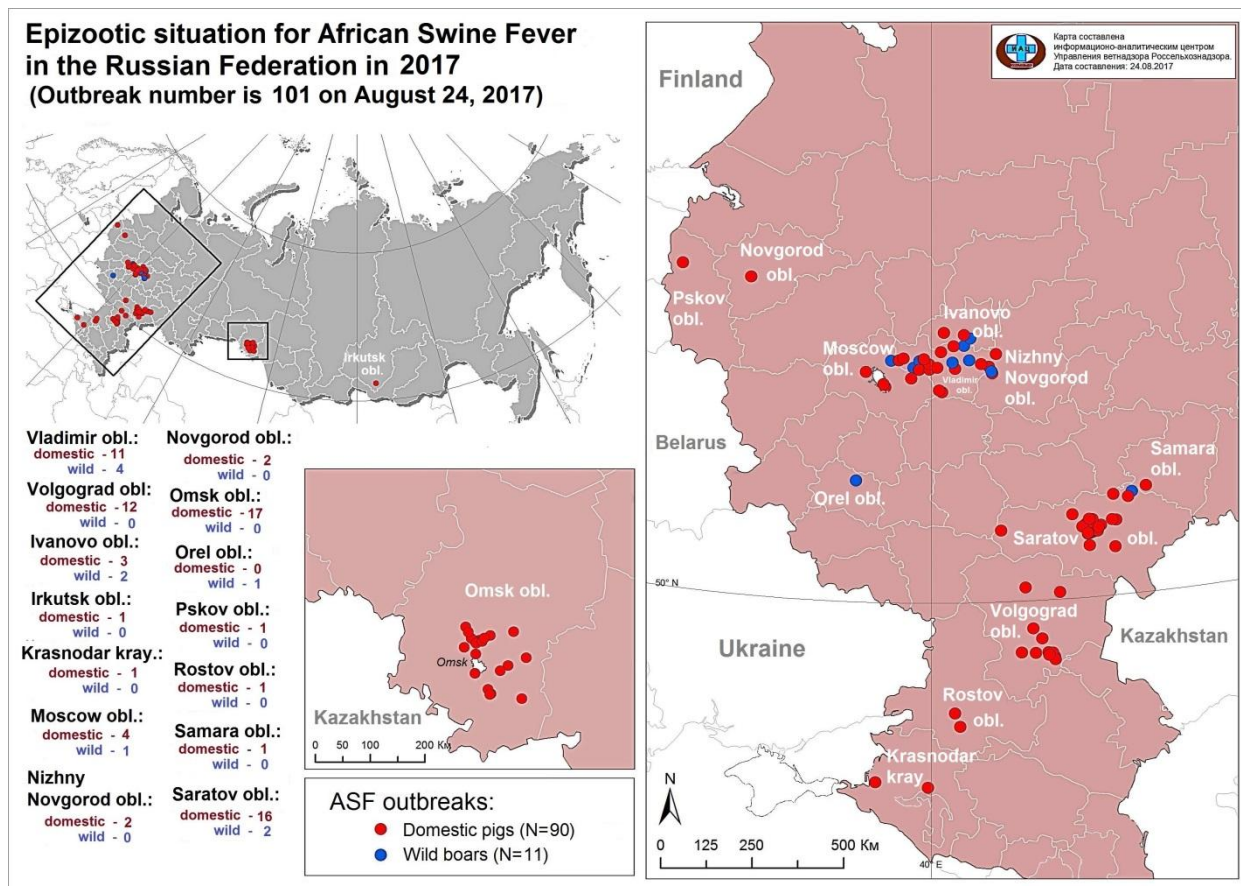


Source: VPSS

In June 2017, VPSS reported that since the introduction of ASF to the country in 2007 approximately 800,000 pigs had been terminated due to disease eradication measures. The accumulated direct financial loss from ASF, according to VPSS, is estimated at approximately 5 billion rubles (83 million US dollars), indirect loss is between 50 and 75 billion rubles (833 million and 1.25 billion US dollars).

The Ministry of Agriculture estimates the direct economic loss from ASF at 1.5 billion rubles (25 million US dollars) as of 2016. The recent [National Report](#) on the Results of Implementation of the State Program of Agricultural Development says that total 233,383 pigs were destroyed due to ASF eradication in 2016. Ten large industrial farms lost 217,375 pigs. Commercial farms were hit strongest in Krasnodarski Krai, where 86,115 head were terminated, and in Voronezh oblast - 43,977 head loss. Regional governments spent 1.137 billion rubles (19 million US dollars) to compensate farmers in ASF quarantine zones in 2016.

**Chart 4. African Swine Fever in the the Russian Federation in January-August 2017.**



Source: VPSS

## Pork Production

Pork production is forecast to grow to 3 MMT (CWE) in 2018, which is a 1.4 percent increase from 2.96 MMT (CWE) anticipated in 2017. Large scale pork production has steadily grown in Russia since 2006, more than offsetting the decline in backyard operations and leading to total average annual growth of 7 percent or 130,000 MT (CWE) of additional pork supplied to the market each year over the last decade.<sup>23</sup> The boost of domestic production was spurred by consumer demand due to the relatively low price of pork in Russia and less competition from imports due to trade restrictions imposed in 2014. However, current growth of pork production growth is expected to be less than the annual average in the previous decade. Major companies from the CFD will account for most of the growth, while production at backyard farms will continue to decline all over the country. The capacity of the pork industry is now approaching market saturation, and any further growth of the commercial sector would need to be absorbed by additional demand domestically or by further developing export opportunities.

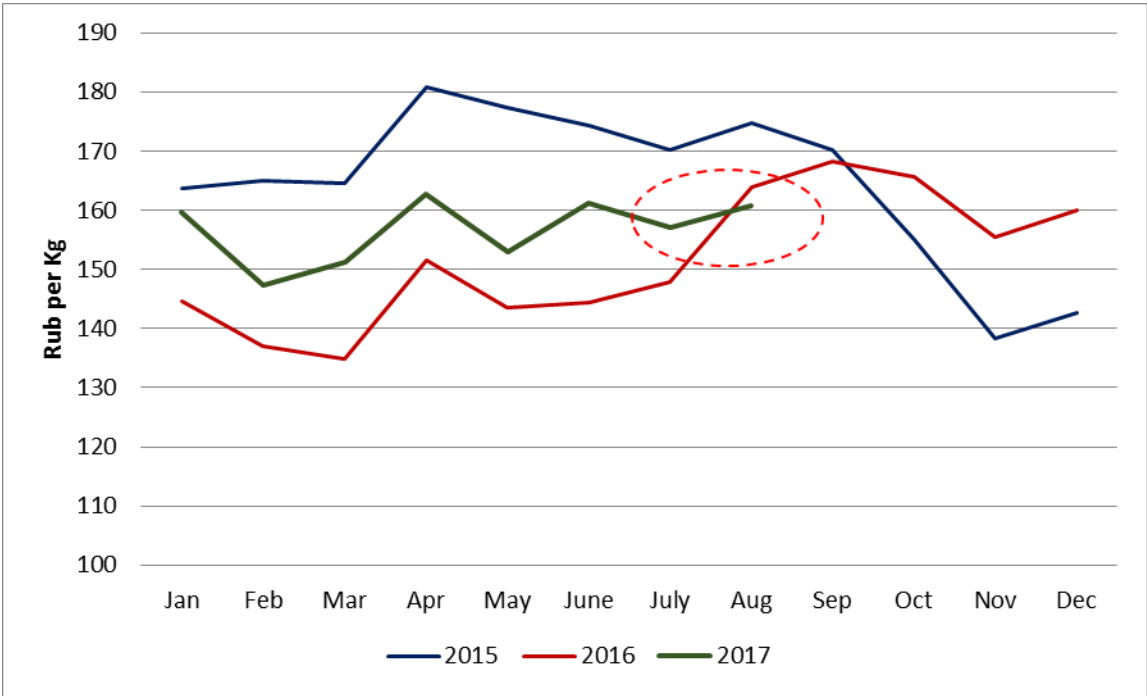
As production and imports have become concentrated in fewer hands, competition has intensified leading to new pricing tactics resulting in volatile producer prices on different cuts. This trend will likely continue in 2018. Moreover, pork prices will likely show stronger volatility compared to other meats

<sup>23</sup> Source: <http://apps.fas.usda.gov/psdonline/>

(poultry and beef) due to stronger influence of currency exchange rates on pork imports and of the epizootic factors on the prices of domestic slaughter pigs.

Producer prices for pork half-carasses have been on average 8.8 percent higher in January-July 2017 compared to the same months in 2016<sup>24</sup>. In 2016, the pork market was considered saturated, and wholesale pork prices fell 9.6 percent. According to analysis from the National Union of Pork Producers (NUPP), the price decrease in 2016 encouraged pork consumption, but generally had a negative impact on profitability in the pork sector. The financial performance, especially with smaller pig farms and processing plants also worsened in 2016 after amendments to the state agricultural program limited access to subsidized credit. The current increase in wholesale pork prices is mainly due to limited availability of slaughter pigs in the CFD. Notwithstanding higher prices, consumer demand for pork is expected to remain strong.

**Chart 5. Comparison of the average producer prices for pork (half –carcasses, Central Federal District) in 2015-July 2017**



Source: E-meat

Less efficient antiquated farms continue to struggle, however industry leaders report improved margins from pork sales in 2017 compared to 2016. Industry leaders report revenue growth of 26-28 percent in the first half of 2017.<sup>25</sup>. The following factors contributed to improved earnings: increased demand,

<sup>24</sup> Source: Emeat

<sup>25</sup> Source: [www.rusagroup.ru/fileadmin/files/reports/en/pdf/17\\_1H\\_2Press\\_release.pdf](http://www.rusagroup.ru/fileadmin/files/reports/en/pdf/17_1H_2Press_release.pdf)

high prices for live pigs, record low cost of feeds after two years of record crops, reduced expenses on imported veterinary supplies due to stronger ruble.<sup>26</sup>

Improved profits also allowed industry leaders to continue investing in enhanced operations, better distribution channels and market promotion. “Integrators” from European Russia are purchasing strategic assets, such as additional land for feed production, slaughter plants or cold storage facilities needed for growth in the new regions. For example, one pork industry leader has increased its land assets, launched new brands, diversified its products assortment, and announced plans to invest in production of leather, premixes and increase sales of ready to eat products. Another market leader has reduced sales of live swine, while increasing sales of pork cuts, and has also introduced other value added processed products under a new brand. The company increased its land assets and purchased a meat processing plant in Promorsky Krai to continue the company’s strategic expansion in the Far East. The third largest pork producer has purchased a grain company to pursue the strategic goal of producing 60 percent of its feed requirements for its meat division.

**Table 6. List of 20 largest Russian pork-producing companies in 2016**

# in 2015	Company Name	Pork Production in <b>2015</b> ; live weight; 1,000 MT	Pork Production in <b>2016</b> ; live weight; 1,000 MT	Change in production; Live weight 1,000 2016/15	Share in total industrial production; percent in <b>2016</b> (2015) **	Location
1	<a href="#">ABH “Mirtatorg”</a>	384.9	409.0	25.00	<b>11.5</b> (12.2)	Belgorod Oblast, Kursk Oblast
2	<a href="#">“Rusagro” Group</a>	187.82	190.02	2.20	<b>5.3</b> (6.0)	Belgorod Oblast, Tambov Oblast
3	<a href="#">“Cherkizovo” Group</a>	169.56	184.77	15.21	<b>5.2</b> (5.4)	Voronezh Oblast, Lipetsk Oblast, Tambov Oblast, Penza Oblast

<sup>26</sup> For reference please see an Interview (in Russian) with Chairman of the Board of Directors ZAO “Sibirskaya Agrarnaya Gruppy A. Tyutyushev : <http://www.interfax-russia.ru/Siberia/exclusives.asp?id=827126>

4	<a href="#">“Agro-Belgorje” Group</a>	162.85	164.62	1.77	<b>4.6</b> ( 5.2)	Belgorod Oblast
5	<a href="#">“Velikolukskiy Pork Plant” LTD</a>	85.22	131.02	45.8	<b>3.7</b> (2.7)	Pskov Oblast
6	<a href="#">“AgroProm Komplektatsia” Group</a>	102.13	115.72	13.59	<b>3.3</b> (3.2)	Kursk Oblast, Tver Oblast
7	<a href="#">“Sibirskaya Agrarnaya Gruppa” ZAO</a>	106.25	111.4	5.15	<b>3.1</b> ( 3.4)	Tomsk Oblast, Krasnoyarsk Krai, Tyumen Oblast, Kemerovo Oblast, Sverdlovsk Oblast
8	<a href="#">Agro Industrial Holding “KoPitania”</a>	93.20	98.54	5.34	<b>2.8</b> / (3.0)	Tver Oblast, Novosibirsk Oblast, Saratov Oblast, Volgograd Oblast,
9	<a href="#">“Agrofirma Ariant”</a>	61.90	89.12	27.22	<b>2.5</b> / (2.0)	Chelyabinsk Oblast
10	<a href="#">“Agroeko” LTD</a>	55.25	82.00	26.75	<b>2.3</b> (1.8)	Voronezh Oblast
11	<a href="#">“Agro Industrial Corporation Don”</a>	69,19	75.49	6.30	<b>2.1</b> (2.2)	Belgorod Oblast, Voronezh Oblast
12	<a href="#">“Ostankino” Group</a>	65.00	71.07	6.07	<b>2.0</b> (2.1)	Moscow Oblast, Smolenk Oblast
13	<a href="#">“Belgrankorm” LTD</a>	58.74	65.85	2.26	<b>1.9</b> (1.9)	Belgorod Oblast,

						Novgorod Oblast
14	<a href="#">“Exima” Agro Industrial Holding</a>	61.00	64.00	3.00	<b>1.8</b> (1.9)	Orel Oblast, Ivanovo Oblast
15	<a href="#">“Komos” Group</a>	41.72	52.64	10.92	<b>1.5</b> (1.3)	Republic of Udmurtia, Perm Oblast
16	<a href="#">“Kamsky Bacon” LTD</a>	49.01	48.54	-0.47	<b>1.4</b> (1.6)	Republic of Tatarstan
17	<a href="#">Agro Holding “Talina”</a>	41.19	46.8	5.61	<b>1.3</b> / (1.3)	Republic of Mordovia, Ulyanovsk Oblast
18	<a href="#">“Bashkirsкая Meat Company” LLC</a> (“Tavros”)	n/a	46.73	n/a	<b>1.3</b>	Republic of Bashkortostan
19	<a href="#">“Prodo Management” LTD</a>	44.80	44.61	-0.19	<b>1.3</b> (1.4)	Omsk Oblast
20	<a href="#">“Corall”, LLC</a>	n/a	43.84	n/a	<b>1.2</b>	Tverskaya Oblast
21	<i>Agro Holding “Ohotno”</i>	<i>39.63</i>	<i>35.00</i>	<i>- 4.63</i>	<i>( 1.3)</i>	
22	<i>“Zvenigovsky SPK” LTD</i>	<i>38.10</i>	<i>38.10</i>	<i>00</i>	<i>(1.2)</i>	<i>Republic of Mari El</i>
	<b>Top 20 producers; total</b>	<b>1917.47</b>	<b>2135.75</b>	<b>218.28</b>	<b>60.1</b>	
	<b>Other industrialized producers</b>	<b>1236.58</b>	<b>1420.05</b>	<b>56</b>	<b>39.9</b>	

Source: National Union of Pork Producers <http://www.nssrf.ru/>



\*Industrial production includes output of agricultural organizations and small-private farms

## **Pork Trade**

Pork imports are forecast at 350,000 MT (CWE) in 2018, an increase of 3,000 MT compared to 2017. A stronger ruble, recovering consumer demand for pork, and a zero in-quota tariff encouraged pork imports in 2017, reversing 5 years of decline due to the counter sanctions and the depreciation of the ruble in 2014, .

The Russian Federal Customs Service reported a ten percent increase in pork imports for the period January to July 2017 to 204,007 MT (CWE); during this period, the value of imports also grew 47 percent to 463.4 million US Dollars. Pork imports in Russia have traditionally been higher in the 3<sup>rd</sup> and 4<sup>th</sup> quarters of the year. However, as the Russian market has become more mature and consolidated, pricing strategies and the interplay of exchange rates between the Ruble, U.S. Dollar and Real seem to have a greater influence than changes in seasonal demand. For example, in the first half of 2016, pork imports grew 22.95 percent YTD, but experienced a 14.89 percent annual decline for the year.

Russian importers are currently allowed to bring in 400,000 MT of pork and 30,000 MT of pork trimmings under the zero percent in-quota tariff rate. Out-of-quota volumes are not limited, but the 65 percent rate reduces the price competitiveness of imported pork in the current market. Starting January 1, 2020, the tariff quota trade regime for pork will be replaced by a flat top rate of 25 percent.

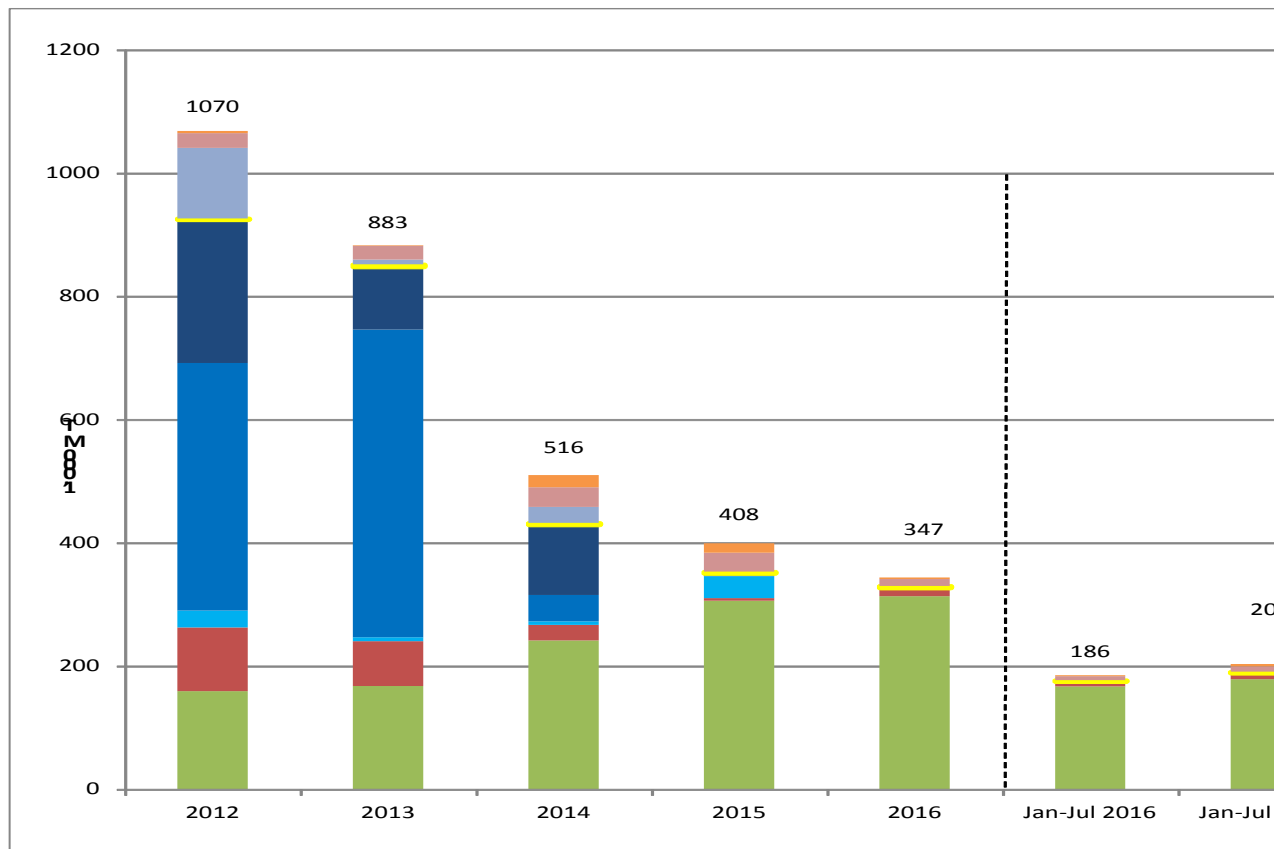
Customs clearance of goods subject to TRQs is carried out on the basis of an import license issued by the Russian authorities<sup>27</sup>. The distribution of quotas within TRQs on pork (as well as on beef and poultry) is based on the 3-year historical shares of the applicants' imports. Importers who shipped pork in quota in 2015-2017 receive a bigger in-quota volume in 2018. Assuming that Brazilian exporters will be able to access the market and offer favourable prices, total imports in 2018 could match the volume attained in 2017. In-quota imports will likely account for over 90 percent of total imports. According to the recent trade data, 95 percent of imports are in-quota. TRQ utilization in January-September 2017 was 43 percent, higher than the 39.8 percent TRQ utilized in the same months in 2016). Brazil accounted for almost 90 percent of pork imports so far in 2017, and the remaining 10 percent were supplied from Belarus, Chile, Serbia and Paraguay. EU suppliers shipped 1,102 MT of non-restricted prepared or preserved pork products (HS Codes 160249, 160241 and 160242).

The most popular cuts for imported pork include boneless collar, boneless leg, and boneless shoulder. Boneless loin is a seasonal product imported by meat processors for popular pork deli products. In 2018, Russian pork exports could reach 25,000 MT (CWE), a level that would be on par with 2017. Russia's main export markets are the Donetsk and Luhansk regions of Ukraine. From January to July 2017, the Federal Customs Service reported that 19,826 MT (CWE) of pork was exported from Russia. Official Russian customs statistic report 1,225 MT (CWE) of HS Code 020322, frozen bone-in pork, was exported to Japan. While several Russian companies are expressing a growing interest in exporting pork products, endemic ASF will likely limit sales into external markets.

***Chart 6. Russian Imports of Pork, CWE, Annual Series: 2012 - 2016, & Year To Date: 07/2016 & 07/2017 Quantity (MT); Major Suppliers***

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<sup>27</sup> The Ministry of Economic Development has a mandate to distribute country quota; the Ministry of Industry and Trade issues import licenses.



Source: Federal Customs Service of Russia

## Pork Consumption

Pork consumption is forecasted to grow one percent in 2018 to 3.315 MMT (CWE), following a 5.8 percent growth in 2016 and a 3 percent increase expected in 2017. Pork consumption declined 7.4 percent in 2014 after trade restrictions were imposed on EU pork, and domestic live swine supplies were affected by ASF. Russian producers increased production, and pork prices fell due to an oversupply in 2016. Low prices however fueled consumer demand in the second half of 2016 and first half of 2017. Pork consumption is expected to exceed the pre-crisis level in 2017. Further growth in pork consumption will depend mainly on the continued recovery in consumer purchasing power and relative prices in the wholesale and retail markets.

Important trends in the Russian pork market include: Producers sell 34-35 percent via the B2B channel; 65-66 percent is sold B2C. Independent meat processors account for 85 percent of B2B sales (carcasses and half-carcasses) and HoReCa accounts for 15 percent (big cuts). 88 percent of pork at retail is sold as “bulk”, not branded product. Total meat consumption is growing along with geographical expansion of national retail chains in the regions, which is also encouraging sales of chilled meat via modern retail channels. Chilled and packed fresh meat under brand names and new branded, value-added products such as marinated or half-cooked pork (and chicken) will continue to replace frozen meat and processed meat products such as sausages and salami.

Despite some gains by pork, chicken remains the most popular type of meat in Russia (reportedly 65 percent of all meat sales in retail) A GfK consumer panel marked a 4.3 percent growth in pork meat sales in absolute numbers in March 2017, compared to March 2016, and sales of pork in money terms grew 1.5 percent.<sup>28</sup> Consumer demand for pork remains strong, but after a fast start in 2017, growth slowed down in the second half of the year. Per capita broiler meat consumption in Russia is growing faster than pork, while beef consumption continues to stagnate. This can be explained by two major trends: 1) chilled broiler meat is replacing pork sausages, and 2) broiler consumption is growing with the expansion of fast food restaurant chains.

### Production Tables

**Table 7. Livestock and Poultry Production Summary in 2016**

	Calendar year 2015	Calendar 2016	2016 to 2015, % change
<b>All Farm Types</b>			
Cattle and poultry production; live weight; million MT	13.45	13.9	3.34%
Raw Milk; million MT	30.7	30.7	-0.02%
Eggs; billion pc	42.5	43.5	2.2%
Livestock count as of January, 1st 2017, million head:			
Cattle	18.9	18.7	-1.6%
Including cows	8.4	8.3	-1.9%
Swine	21.4	22	2.4%
Sheep and goats	24.5	24.8	-0.3%
Poultry	547.2	552.8	1.0%
<b>Agricultural Establishments</b>			
Cattle and poultry production; live weight; million MT	9.85	10.14	5.8%
Raw Milk; million MT	14.71	15.04	2.2%
Eggs; billion pc	33.2	34.2	3.1%
Livestock count as of January1, 2017; million head:			
Cattle	8.44	8.33	-1.1%
Including cows	3.38	3.36	-0.9%
Swine	17.5	18.3	4.4%
Sheep and goats	4.3	4.2	-3.3%
Poultry	547.2	552.8	1.0%

Source: Rosstat

**Table 8. Specialized beef and mixed cattle**

<sup>28</sup> Source: GfK Rus Presentation “Consumer Trends in the market of meat and meat products” May, 25 2017 ([www.gfk.com](http://www.gfk.com))

Federal District	Specialized beef cattle 1,000 head				Mixed breed cattle 1,000 head				Specialized beef and mixed cattle produced for slaughter (live weight 1,000 MT)	
	Total		Including cows		total		Including cows			
	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
Russian Federation	1865,0	2007,6	852,6	930,1	544,2	594,8	209,2	232,4	255,9	317,9
Central FD	399,5	495,4	140,3	173,3	60,6	64,9	15,4	16,3	30,6	77,6
North-Western FD	47,5	56,7	21,4	24,7	4,5	4,4	0,1	0,2	1,4	1,5
Southern FD	573,7	590,0	327,4	349,2	61,6	65,5	29,0	30,8	44,6	46,9
North-Caucasus	147,7	173,0	57,9	74,7	120,5	137,9	42,6	53,2	29,8	34,6
Volga FD	331,4	363,1	146,3	162,1	116,9	129,3	51,0	55,6	65,2	73,2
URAL FD	61,2	65,1	24,4	27,1	15,2	21,2	6,1	8,0	13,1	11,8
Sibir FD	283,4	241,0	125,5	108,7	162,9	169,8	63,8	67,1	69,5	70,1
Far Eastern FD	20,4	23,1	9,3	10,2	1,7	1,7	1,1	1,0	1,6	2,0

*Source: Rosstat Report on 2013-2020 Agricultural Program Implementation*

## Trade Tables

**Table 9. Russian Imports of Pork, CWE, Annual Series: 2012-2016 & Year To Date: 05/2016 & 05/2017A Quantity (MT)**

	Calendar Year					Jan-May 2016	Jan-May 2017	% Change Jan-May 2016/2017
	2012	2013	2014	2015	2016			
<b>World</b>	<b>1,069,869</b>	<b>882,528</b>	<b>512,576</b>	<b>407,987</b>	<b>347,250</b>	<b>133,787</b>	<b>142,710</b>	<b>6.7%</b>
Brazil	159,006	167,118	241,354	305,627	313,130	118,945	126,825	<b>6.6%</b>
Belarus*	103,217	72,919	21,571	4,792	10,499	4,490	5,859	<b>30.5%</b>
Chile	24,107	22,361	31,831	30,805	10,930	6,006	5,103	<b>-15.0%</b>
Serbia	3,439	835	20,020	15,163	2,792	832	2,426	<b>191.6%</b>
EU-28	401,896	499,103	42,559	5,967	3,909	1,355	824	<b>-39.2%</b>
Paraguay	1,011	2,840	1,895	1,576	2,079	474	579	<b>22.2%</b>
Ukraine	27,469	6,447	5,937	35,285	1,157	255	151	<b>-40.8%</b>
China	0	0	4,645	6,026	0	0	0	<b>0.0%</b>
Canada	233,499	103,169	115,213	0	0	0	0	<b>0.0%</b>
USA	114,325	7,718	25,935	0	0	0	0	<b>0.0%</b>
Others	1,900	18	1,616	2,746	2,753	1,430	943	<b>-34.0%</b>

Source: Federal Customs Service of Russia; \*Belstat for 2012-2013

**Table 10. Russian Imports of Beef, CWE, Annual Series: 2012-2016 & Year To Date: 05/2016 & 05/2017A Quantity (MT)**

Partner country	Calendar Year							% Change Jan-May 2016/2017
	2012	2013	2014	2015	2016	Jan-May 2016	Jan-May 2017	
<b>World</b>	<b>1,023,392</b>	<b>1,023,196</b>	<b>932,021</b>	<b>622,348</b>	<b>521,836</b>	<b>188,791</b>	<b>193,974</b>	<b>2.7%</b>
Brazil	348,468	431,557	433,649	229,795	180,741	71,483	76,318	<b>6.8%</b>
Belarus*	146,647	206,548	181,304	178,388	202,427	82,648	64,884	<b>-21.5%</b>
Paraguay	167,258	195,210	181,761	132,294	104,436	29,333	35,669	<b>21.6%</b>
EU-28	73,238	44,918	37,709	168	108	29	41	<b>38.1%</b>
Uruguay	92,218	49,351	33,123	8,841	7,326	420	4,600	<b>995.3%</b>
Colombia	259	0	2,237	9,027	6,857	431	2,638	<b>511.7%</b>
Argentina	12,506	20,768	32,165	9,260	4,966	186	227	<b>21.8%</b>
Ukraine	19,838	23,818	19,376	35,507	1,163	0	0	<b>0.0%</b>
Australia	47,779	37,666	3,053	0	0	111	4,847	<b>4282.3%</b>
India	0	0	0	13,469	8,795	3,212	3,480	<b>8.4%</b>
Others	115,179	13,361	7,643	5,599	5,017	939	1,270	<b>35.2%</b>

**Table 11. Russian Imports of Live Cattle in 2011–2016; Quantity (Head); Cattle Types**

HS Code	Description	Calendar Year						
		2011	2012	2013	2014	2015	2016	YTD% Change

0102	Bovine Animals, Live	94,468	137,613	97,023	74,647	144,238	62,885	<b>-56.40%</b>
010221 /010210	Cattle, Live, Purebred Breeding	86,534	136,982	96,894	41,958	33,065	30,402	<b>-8.05%</b>
010229	Cattle, Live, Other Than Purebred Breeding	0	432	0	32,501	59,895	31,310	<b>-47.73%</b>
010290	Bovine Animals, Live, Nesoi	7,394	199	69	169	647	1173	<b>81.30%</b>
010231	Buffalo, Live, Purebred Breeding	0	0	60	19	50,631	0	<b>-100.00%</b>

Source: Federal Customs Service of Russia

**Table 12. Russian Imports of Live Cattle, Calendar Year: 2012-2016, & Year To Date: 05/2016 & 05/2017 Quantity (Head)**

Partner Country	2012	2013	2014	2015	2016	Jan-May 2016	Jan-May 2017	% Change Jan-May 2016/2017
<b>World</b>	<b>174,258</b>	<b>131,542</b>	<b>74,647</b>	<b>93,795</b>	<b>62,920</b>	<b>38,557</b>	<b>17,385</b>	<b>-54.91%</b>
EU-28	24,372	9,313	24,976	28,177	29,767	8,269	15,845	<b>91.62%</b>
<i>Netherlands</i>	785	0	6,836	9,564	13,046	4,241	8,037	<b>90%</b>
<i>Germany</i>	0	600	9,723	8,476	8,925	1,690	4,679	<b>177%</b>
<i>Denmark</i>	10,811	3,462	3,115	3,017	2,480	451	1,443	<b>219.96%</b>
<i>Hungary</i>	3,874	3,513	1,864	2,556	3,651	1,187	1,199	<b>1.01%</b>
<i>France</i>	0	283	2,260	1,174	583	583	0	<b>-100.00%</b>
<i>Slovakia</i>	1,194	879	128	941	0	0	0	<b>0.00%</b>
Belarus	598	107	574	5,811	5,794	3,169	1,538	<b>-48.41%</b>
Australia	36,645	34,519	31,710	54,605	26,672	26,672	0	<b>-100.00%</b>
United States	74,734	51,534	16,386	3,427	0	0	0	<b>0.00%</b>
Canada	1,862	1,587	216	5	0	0	0	<b>0.00%</b>
Ukraine	0	3	360	1,436	540	300	0	<b>0.00%</b>
Others	36,047	34,479	425	334	147	147	2	<b>0.00%</b>

Source: Federal Customs Service of Russia

**Table 13. Russian Imports of Live Swine, Calendar Year: 2012-2016, & Year To Date: 05/2016 & 05/2017 Quantity (Head)**

Partner Country	2012	2013	2014	2015	2016	Jan-May 2016	Jan-May 2017	% Change Jan-May 2016/2017
<b>World</b>	<b>334,473</b>	<b>88,869</b>	<b>7,606</b>	<b>2,431</b>	<b>8,358</b>	<b>2,239</b>	<b>1,508</b>	<b>-32.65%</b>
Canada	3,507	6,838	3,508	1,377	3,305	372	1,465	<b>293.82%</b>
Belarus*	103,131	52,213	0	471	4,705	1,776	0	<b>0.00%</b>
Norway	0	0	465	583	181	91	43	<b>100.00%</b>
EU-28	226,593	29,467	2,354	0	0	0	0	<b>0.00%</b>
<i>Denmark</i>	77,739	25,759	814	0	0	0	0	<b>0.00%</b>
<i>Estonia</i>	53,120	0	0	0	0	0	0	<b>0.00%</b>
<i>Ireland</i>	4,055	932	734	0	0	0	0	<b>0.00%</b>
<i>Germany</i>	26,728	0	0	0	0	0	0	<b>0.00%</b>
<i>Latvia</i>	45,894	0	0	0	0	0	0	<b>0.00%</b>
<i>Poland</i>	8,268	78	0	0	0	0	0	<b>0.00%</b>
United States	1,242	351	1,279	0	0	0	0	<b>0.00%</b>
Others	0	0	0	0	167	0	0	<b>0.00%</b>

Source: Federal Customs Service of Russia